Agricultural Policy Matters Quarterly

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Policy Chatter

2012 Agriculture Budgets and For Whom the Bell Tolls

Over the past months all senior governments in Canada have tabled their 2012/13 annual budgets including their agriculture (food/rural) department budgets.

Most Canadian farm groups have long monitored such budgets to seek key policy signals or confirmation of commitments to their industry/commodity. Most Canadian food groups have not been as intensely interested in departmental budgets as compared to the overall tax/fiscal outlooks. For the 2012/13 year, with fiscal constraints facing most governments, and a greatly improved agri-food sector outlook, it may have been reasonable to expect some shifts in the Ag Department budgets for this year and for years beyond. Although some changes in departmental budgets across Canada occurred, these were basically small declines in overall expenditures, seeking some program and administrative cost reductions, and a few new initiatives. One major exception was the Agriculture and Agri-Food Canada budget which reflected the Government of Canada's much stronger push towards a balanced budget within a few years.

This basic status quo approach was not consistent with market outlooks or fiscal pressures on most governments. It did reflect both a limited desire for major changes by many farm groups and ongoing discussions about the new generation of national agriculture/food policy framework: Growing Forward II. It would seem premature to make major policy or program shifts in major Growing Forward programs prior to completing the process for negotiating the Growing Forward framework. It took time for the full reductions requested required AAFC become known to provinces and to producer groups.

Indeed, shortly after the Government of Canada tabled its budget with its AAFC cuts/future changes outlined in limited detail Federal-Provincial-Territorial (FPT) Ministers of Agriculture met on April 20th and again in July to review/direct discussions and analysis on Growing Forward II. The communiqué from the April 20th session noted greater focus on market development and innovation, with a timeline for key decisions in September 2012 so as to have the new framework in place by spring 2013. This general direction was reinforced at the July meetings, but with greater clarity on future program reductions, and reinvestment options for Growing Forward II.

These are positive steps, but it remains unclear how much change will occur, in what areas, and whether FPT Ministers will have to reallocate existing program dollars, It is also more unclear how the proposed Growing Forward II framework will line up with newly identified program and staffing changes within AAFC, and its agencies, and with new legislative directions as identified in the Federal omnibus budget implementing legislation. The legislative reform directions are likely to be warmly received by a number of food industry players (and likely to be opposed by other participants) yet if passed these could become major steps towards a more modernized, competitive food regulatory system. If so, and if markets continue to improve (or at least do not decline dramatically), there will be further changes anticipated in the program details for Growing Forward II. How much, how fast, where the changes will occur and who will win/lose will be left to a later date when the details become much clearer.

It now seems that AAFC and Minister Ritz are in a position to play a stronger leadership role in these FPT discussions. Some provinces are not in a position to date to discuss or agree to major shifts yet, or may soon be facing their own electoral challenges (as Quebec now does) as well as ongoing fiscal constraints. AAFC in making its cuts/identifying legislative changes will have its Cabinet approval on future policy directions. AAFC can now work with the Provinces/Territories as well as the industry leadership (farm and food) to find its preferred directions. But....the details are still to be finalized, discussions to become more transparent, and the risks (gains, losses, impact of Canada's competitors) more clearly known. For most Canadian farm and food groups this will be both a unique opportunity for changes if desired, as well as a real challenge to the leadership and its capacity to adapt or refuse as the negotiating process for Growing Forward II makes its way towards approval and implementation.

In addition, the aggressive and energetic trade policy pursued by the Federal and Provincial governments with focus on increased market access on an ever widening number of negotiations also raises both new opportunities for market growth and market competition for many other commodities and food firms. Only a few governments highlighted this area, or provided some additional spending (Saskatchewan identified several smaller initiatives here) to pursue this direction. The combination of future agricultural budget changes and successful (depending on one's view) trade negotiations could significantly alter the outlooks for a number of industries within Canada's agri-food sector.

It's still too early to say for whom the bell tolls, but it is ringing!

People

In the recent Alberta election, most media focused upon the difference between the polling numbers and the electoral results for the governing Progressive Conservatives and the now new Opposition Wildrose Alliance Party. However, within Alberta it was noted that the Agriculture Minister Evan Berger did not retain his seat. While Mr. Berger was a new Minister in Premier Redford's government prior to the election, Mr. Berger provided strong leadership to the Alberta farm/food communities, and to his department. His replacement, the Honourable Verlyn Olson will face some new challenges given Wildrose's stronger rural Alberta presence. As an aside – an interesting development between Ontario's recent election results with few provincial Liberals elected in that province's rural constituencies and now in Alberta with a much stronger rural presence by the Wildrose Alliance Party.

A more recent development has been the Prime Minister's decision to move the current AAFC DM, John Knubley, over to Industry Canada, and has assigned former AAFC executive Suzanne Vinet, to replace him in September.

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Understanding TPP

At last year's Annual Asia-Pacific Economic Cooperation (APEC) Leaders' meeting (Nov. 2011), Canada indicated it wanted to join the negotiations already underway by current Trans Pacific Partnership (TPP) members. Trade Minister Ed Fast underlined a commitment that "Canada would not ease up on its efforts to join the TPP"[1]. The effort paid off; on June 18 Canada was formally invited to join the on-going TPP trade negotiations – pending the formality of the US Congressional review. Part of its appeal is that the Asia-Pacific region is growing economically making it a growth region in trade. Canada has major trading partners in the US and the EU, which can't offer the same prospect of growth. Existing bi-lateral trade discussions don't have the same "level of ambition"[1] as the TPP deal would, plus the TPP has the potential to grow as other Asian markets may sign on.

Brief Description of TPP

In 2005, the original Trans-Pacific Strategic Economic Partnership Agreement (P4) was signed by Brunei, Chile, New Zealand and Singapore. In 2010 the original members accepted the US, Australia, Malaysia, Peru and Vietnam to negotiate an expanded agreement. Canada changed its mind and worked hard to be invited. In the last few months Canada has met with the United States Trade Representative (USTR) in an attempt to address the US on its requirements and concerns. Within the group, only the US, Australia and New Zealand were stalling on having other interested parties join the negotiations[2].

The other six countries were willing to have new members join the talks sooner rather than later. Now that Canada has been invited it can ensure our trade interests are addressed; rather than acceding to a completed agreement later on.

Significant Opportunity

TPP stands to reduce barriers to trade in markets that are growing rapidly; moreover many of the members are already significant export markets for Canada. Between 2009 and 2011, Canadian agri-food trade

Canada's Agri-Food Trade with TPP members[3]

BRUNEI

Canadian Agri-Food Export Value (avg last 3 years): $253,000

Top Canadian Agri-Food Exports to Brunei (2011 values)

- Soybeans: $148,000
- Frozen Potatoes: $ 84,000

No formal trade relationship to date.

CHILE

Canadian Agri-Food Export Value: $112.4 million

Top Exports	Competitors
• Wheat: $54 mil.	US
• Canola Oil: $33 mil.	Argentina
• Pulses: $14.2 mil.	Argentina, US
• Pork: $7 mil.	US, Brazil

Canada-Chile Free Trade Agreement, 1997

NEW ZEALAND (NZ)

Canadian Agri-Food Export Value: $58.8 million

Top Exports	Competitors
• Pork: $24.6 mil.	Aus., Finland, US, Denmark
• Pet food/feed: $10.3 mil.	Aus., US, France
• Condiments: $5.3 mil.	Aus., US, Thailand, China
• Caviar: $2.9 mil.	Thailand, Aus., US, China
• Pulses: $2.7 mil.	US, Aus., China

No formal trade relationship to date.

SINGAPORE

Canadian Agri-Food Export Value: $61.3 million

Top Exports	Competitors
• Pet food/feed: $16.6 mil.	US, Thailand, Aus.
• Soybeans: $9.3 mil.	Brazil, Malaysia
• Pork: $5.1 mil.	Brazil, Aus., Netherlands
• Frozen Potatoes: $3.4 mil.	US, NZ, Malaysia
• Food Preparations: $3.4 mil.	Malaysia, Netherlands, US

Launched trade negotiations in 2001

AUSTRALIA (AUS)

Canadian Agri-Food Export Value: $227.6 million

Top Exports	Competitors
• Pork: $95 mil.	Denmark, US
• Bread/Bakery: $23.4 mil.	NZ, China, UK
• Protein Conc. $21.3 mil.	Ireland, Singapore, NZ
• Caviar: $9.2 mil.	Thailand, NZ, US
• Sugar/Syrup: $6.7 mil.	US, China, NZ
• Pulses: $6.3 mil.	US, NZ, Myanmar

No formal trade relationship to date.

[1]World Trade Online. April 4, 2012. "Canadian Trade Minister: Canada will not ease up on efforts to join TPP."
[2] Inside US Trade. Vol. 30 No. 12 March 23, 2012. United States, New Zealand and Australia Still Not Ready to Admit New TPP Members.
[3] Statistics Canada, Trade Data on-line; Unite Nations Commodity Trade Statistics Database.

averaged 10% of total merchandise trade. As Canadian agri-food exporters look to grow the sector in other markets they are often stymied with tariff and non-tariff barriers that impact export flows. So, a free trade agreement of this magnitude is a significant opportunity for the sector.

Canada's current agri-food trade with all nine TPP members averaged $22 billion between 2009 and 2011. Agri-food trade averages just over $29 billion when Japan (seeking membership) and Mexico (invited at the same time as Canada), are included.

In some cases Canada already has free trade agreements (FTAs) with TPP members (US, Chile, Peru, Mexico), in other countries we have begun negotiations (Singapore in 2001; potential member Japan in 2012), and others we have no special trade relationship with. Despite the fact that we have FTA's with some countries there is still ample opportunity to enhance our trade commitments with these countries and go beyond what is set out in the already established trade agreements, including NAFTA.

Potential opportunities for agri-food include:

Take advantage of potential tariff reductions

- Vietnam currently has a 20% import tariff on beef. Canada exports very little to Vietnam currently (~1,000 tonnes), but Vietnam imported approximately 300,000 tonnes in 2011from other markets.
- The Canadian Seed Trade Association states that some of the TPP countries have in place bound tariffs on seed imports. Therefore any advances on these tariffs would provide an opportunity for the industry.

Get a 'leg up' on non-TPP members

- Potentially displace some Danish pork exports. Denmark is not a part of the discussions but supplies a number of the same pork markets that Canada does, such as New Zealand, Australia, and Japan. The negotiations may result in an advantage to Canada serving these markets over Denmark. The same can be said for Brazil and the Netherlands.
- Pet Food exports compete with France and the Netherlands.
- Bread and Bakery products compete with Italy, UK and Denmark.
- Wheat competes with Russia and Ukraine.

PERU

Canadian Agri-Food Export Value: $231.7 million

Top Exports	Competitors
• Wheat: $165 mil.	US, Argentina, Mex.
• Pulses: $27.5 mil.	US, Bolivia
• Malt: $12.9 mil.	Chile, Belgium

Canada-Peru Free Trade Agreement, 2009.

MALAYSIA

Canadian Agri-Food Export Value: $125.1 million

Top Exports	Competitors
• Soybeans: $55 mil.	US, Argentina, South Africa
• Canola Oil: $32.2 mil.	US, Aus.
• Wheat: $22 mil.	Aus., US, Russia
• Pulses: $5.1 mil.	Myanmar, Aus., China
• Frozen Fish: $3.5 mil.	China, India, Myanmar

No formal trade relationship to date.

VIETNAM

Canadian Agri-Food Export Value: $76.3 million

Top Exports	Competitors
• Soybeans: $48.1 mil.	US, Argentina
• Crustaceans: $14 mil.	Japan, Denmark
• Frozen Fish: $12.7 mil.	Japan, Thailand, Indonesia
• Fish Fillets: $5.8 mil.	Indonesia, Singapore, Japan
• Pork: $5.3 mil.	US

No formal trade relationship to date.

UNITED STATES (US)

Canadian Agri-Food Export Value: $20.9 billion

Top Exports	Competitors
• Canola Oil: $1.9 bil.	None
• Bread/Bakery: $1.4 bil.	Mex., Italy, German
• Crustaceans: $1.1 bil.	Thailand, Indonesia, Vietnam
• Chocolate: $911 mil.	Mex., Germany, Belgium
• Beef: $880 mil.	Mex., Aus., NZ

NAFTA, 1994

MEXICO

Canadian Agri-Food Export Value: $1.4 billion

Top Exports	Competitors
• Canola: $839 mil.	US
• Wheat: $471 mil.	US, France
• Beef: $115 mil.	US, NZ
• Canola Oil: $66 mil.	US, Denmark
• Buckwheat, canary seed: $44 mil.	US
• Pulses: $41 mil.	US, China

NAFTA, 1994

Refine trade relationships with current customers and trading partners

At the same time, in order to take advantage of these opportunities Canada must be willing to discuss its sensitivities.

Canada's Sensitivities

Discussions regarding Canada's possible participation in TPP have turned quickly to dairy and poultry supply management. New Zealand's Prime Minister has stated that Canadian exclusions for dairy and poultry products wouldn't be acceptable[3]. Similarly, the National Chicken Council in the US has suggested to the Office of the USTR that Canada must open up its poultry market as a requirement to entry. John Weekes, Canada's former Chief Trade Negotiator during NAFTA, has suggested that Canada should be prepared to discuss supply management in consideration of TPP entry. This does not imply a dismantling of the supply management system, but it could mean liberalization and concessions.

The US National Pork Producers' Council (NPPC) has also stated that as a requirement to entry it would like to see Canada remove all federal and provincial subsidies to the pork industry, in particular ASRA and the new Ontario livestock BRM program[4]. Whether or not these programs have caused injury to the US pork industry has not yet been measured.

Canada's sensitivities are not all food-related; it's been requested that Canada improve its Intellectual Property Rights protections as a requirement to joining. Also, these sensitive issues are coming up during other member negotiations as well; e.g. New Zealand and US dairy discussions. There is no conclusion as to how, or if, these sensitivities will be resolved, or if they have to be resolved.

POTENTIAL MEMBER: JAPAN

Canadian Agri-Food Export Value: $3.4 billion

Top Exports	Competitors
• Canola: $1.3 bil.	Australia
• Pork: $838 mil.	US, Denmark, Mex.
• Wheat: $471 mil.	US, Aus., Russia
• Soybeans: $245 mil.	US, Brazil
• Crustaceans: $120 mil.	Russia, Vietnam, Indonesia

Launched trade negotiations in 2012.

Canada's Overall Stake

On balance, entry to TPP was vital for Canada, especially in agriculture and food. Canada is inherently in a structural surplus position in agri-food products. Given this situation, trade liberalization is fundamental to the use of productive capacity and to rural economic development. The key elements are that (1) we have the prospect of sharply reduced tariffs that can support increased market share and a higher net price for Canadian exporters, (2) Canada already has a footprint in key agri-food markets in many of the TPP members, so our market share does not need to be built up from scratch and (3) significant growth is expected in many of the TPP member-countries, so in effect for a given market share sales volumes should grow over time.

At the same time, Canada has clear sensitivities in dairy and poultry that have been presented as a tradeoff for the above opportunities. This is generally correct, but the nature of tradeoffs has likely been badly exaggerated. The notion that supply management will be "offered up" suggests that a strong prospect exists that it would be discontinued in return for TPP membership. This is unlikely; as the government has made clear that its decision regarding TPP will reflect the national interests. It is also unrealistic and unnecessary. Elimination of supply management systems is unrealistic because they are a complex nexus of federal legislation, provincial legislation, and federal-provincial-producer agreements. In practice, supply management is very different from the Canadian Wheat Board and the process used to remove its marketing authority. It is unnecessary to eliminate supply management (even if it was practical) because there is flexibility to adjust within these systems, if the industry and government wish to do so. Adjustment and evolution has occurred throughout the 40+ year

[3] Dawson, L. 2012. "Can Canada Join the Trans-Pacific Partnership? Why just wanting it is not enough. CD Howe Institute Commentary No. 340)

[4]World Trade Online. February 9, 2012. "NPPC Says Canadian TPP Entry Contingent on Ending Subsidy Programs".

history of supply management, including to adverse trade developments such as the loss of the UK cheese export market in the 1970's and the loss of the dairy export case in the early 2000's.

The above acknowledged, it would be naïve to think that adjustment in dairy and poultry to increase domestic market access and lower prices would not be contentious. But the true nature of this adjustment cannot yet be known. Currently the US is in discussions with other TPP members (notably New Zealand) on how to bring its dairy policy in compliance. This process is just beginning, but so far there appears to be a wide gap between what New Zealand expects and what the US is willing to offer. The prospect exists that the US will be successful in offering little in terms of liberalization in its dairy policy, which could create the precedent for Canada to do the same, or at least not be asked for radical changes.

Thus, this process has a long way to go, with many uncertainties. Canada must remain engaged and be willing to negotiate. And given the opportunities and our acknowledged willingness to discuss our sensitivities, Canadian success is likely to hinge on innovative work by our trade negotiators. As Laura Dawson stated "negotiating is not the same as accepting an agreement[3]."

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Meat Industry Grants: The Gift that Keeps Giving

During the Alberta election campaign, the Wildrose Alliance Party said it would disband the Alberta Livestock and Meat Agency (ALMA) if it won the provincial election. Party Leader Danielle Smith said "We don't believe in corporate welfare or direct grants to individual firms and if you look at the kind of money that is flowing through there, you have to stop it now." ALMA is a provincial government agency that among other things provides grants to meat companies. ALMA administers $36 to $40 million a year in grants and is responsible for the oversight of the $22 million legacy fund and another $8.8 million from Growing Forward, according to the Western Producer, March 26.

Of course the outcome of the election made getting rid of ALMA a moot point for now but the pledge to get rid of it focuses attention, yet again, on the topic of financial assistance to the Canadian meat industry. Given that the federal government continues to provide funding to meat packers under its "Slaughter Improvement Program," and that other provinces such as Ontario also provide funding to meat packers, it is not simply an Alberta election issue. Another reason that it is not strictly an Alberta issue is because there are many who believe that ALMA model should be cloned into a national program. The policy question therefore is whether direct financial assistance to the meat industry is good public policy.

Government loans and grants to the meat packing industry have a long history in Canada. The program objectives have always been to provide financial assistance to prompt or leverage packing company investment. The investment in turn is usually aimed at increasing efficiencies and size, and ultimately competitiveness of the industry. This in turn is seen as having the added benefit of securing a stronger market for Canadian livestock producers. That has been the basic premise for 20 or more years. ALMA's vision of being "a catalyst in the development of a profitable and internationally competitive Alberta livestock and meat industry," fits exactly into that mold. The other unstated objective for governments has been to have ministries seen to be working with the entire industry, not just the farm sector. Cutting ribbons at an expanded slaughter plant fits the bill perfectly.

The policy question of whether financial assistance is good policy needs to start with first principles on the role of government regarding business. There are those such as myself that do not believe that government has any role in redirecting tax or borrowed dollars from one industry to another. There are others who believe that government should take tax dollars or borrowed funds and allocate them to subsidize particular industries or companies. This has been variously called Industrial Policy, centralized planning or just being a "driver of change." Regardless of what side of that basic argument an individual comes out on, almost everyone would likely agree that subsidies are not a market oriented policy, almost by definition.

So if not grants, what is good government policy towards the meat industry? As a starting point policy must acknowledge that the meat industry is a business. As such, first principles relate to what is critical for business and what works. In that regard, the best way to exert a positive policy environment for the meat industry is to ensure that Canadian and provincial tax policy is competitive with global meat industry participants, particularly the United States. Ensuring that tax policies in Canada encourage or at least do not deter investment is a starting point. The same is true of Canada's regulatory regime. Canada will rightly have unique regulatory objectives, but the challenge will be to ensure that they do not impede industry competitiveness. These starting points are true for all businesses, not just meat.

Basic applied research is another area of government policy that could be expanded. As noted by the Canadian Cattlemen's Association there is a need for a commitment from the federal government to maintain and strengthen AAFC's internal research capacity to perform long-term, high-risk discovery research. The benefits of basic scientific research (particularly in the areas of food safety and quality, animal health, and environment) extend beyond agriculture. The lack of productivity improvements in non-corn grains is just one example that needs to be addressed at least partially through research.

Another area that needs to be encouraged and grown in terms of priority is market access. The Government has placed a high priority on market access in recent years by forming the Agricultural Market Access Secretariat, pursuing new free trade negotiations, challenging barriers through formal dispute resolution processes at the World Trade Organization and engaging Ministers and the Prime Minister with their foreign counterparts. The federal government needs to provide more intellectual and technical resources to these negotiations. More resources are also needed on the ground in both Canada and around the world in terms of access, negotiation and technical assistance.

Within the context of those important positive initiatives, however, governments of all political stripes just can't seem to keep out of the meat industry for very long. In that regard, however, the government's record of subsidizing the meat processing industry is shaky at best. The ongoing saga of the Quebec government's painful involvement with the Colbex beef plant is just the most recent example. The provincial government has been committing millions to the money losing plant and is in a constant struggle to find a way out of its financial mess. History is replete with illustrations of failed investments and poor decision making from east to west at the federal and provincial levels.

Even ignoring the outright failures, a more typical example of government's mismanagement is that the vast majority of investments would have been made anyway, without the subsidy. The plant expansion, new product line or equipment upgrade was going to be done, regardless of government subsidy. The subsidy simply sped up the expenditure or made the ROI even more attractive. Companies of course would be foolish not to take advantage of the subsidies. That however, does not mean that the subsidies fulfilled a grand strategic vision of industry competitiveness.

As a final point, government policy makers must understand that the single most important factor for meat industry competitiveness is an abundant livestock base. Everything else comes a distant second. Of course in that regard, Canada's federal and provincial governments have been working against the meat industry by supporting mandates and subsidies to ethanol production. Artificially driving up grain costs damages livestock

producers and reduces production incentives. The George Morris Centre has been a long standing critic of this inexcusable waste of resources and burden on the livestock industry. The best policy to support the meat industry would be to dismantle the ethanol subsidies and mandates.

The point of course is that there are numerous proactive, important and productive ways in which government policy can benefit the meat industry. These are often not high profile or news making endeavors, but they are far more important to competitiveness and global success than capital grants.

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Labeling issues in the Food Industry

Recently, a great deal of media attention has focused on Lean Finely Textured Beef (LFTB) in the US. LFTB is made from meat trimmings that are collected in the slaughter process. These pieces are then heated to liquefy the fat and centrifuged to separate the meat and fat. The meat is then treated with ammonium hydroxide or citric acid to remove potential pathogens such as Salmonella and *Ecoli*.

The result is LFTB, which is added to hamburgers, hot dogs and deli meats to make them leaner. It is also often referred to as ground beef or hamburger patty 'filler'. In 2011 Jamie Oliver, the prominent UK food chef who is targeting the US with his food revolution, illustrated what, in his opinion, is the problem with throwing meat scraps in a washing machine and then drowning them in household bleach in front of a shocked audience. The topic was picked up again by ABC News in May 2012 and gained nation-wide prominence. It was stated that 70 percent of US supermarkets would sell ground beef that contained 'pink slime'. [5]

LFTB is safe to consume as it has been treated to avoid pathogen contamination. However, the main issue appears to be that LFTB has in fact been treated with ammonium hydroxide. Nevertheless, ammonium hydroxide has a status as GRAS, or Generally Recognized as Safe, by the U.S. Food and Drug Administration. It is actually used in a number of food products, such as cheeses, chocolate and baked goods. [6]

It appears that LFTB, as it is produced in the US, is not added to products in Canada. In Canada, muscle tissue is removed mechanically from bones, where soft tissue is passed through sieves or screens. Depending on the composition of the final product, the end products are referred to as finely textured meat (FTM) or mechanically separated meat (MSM).[7] After slaughtering, beef carcasses are treated with different kinds of processing aids, hot water sprays and other interventions. Common chemicals used in beef processing are lactic acid, citric acid and acidified sodium chlorite. Ammonium hydroxide is not used in meat processing in Canada. While actual Canadian figures are not available, the Public Health Agency estimated an incidence rate of 4 cases/100,000 population of *Ecoli* infections per year from all sources. Hence, antimicrobial additives are an important step in preventing the outbreak of *Ecoli*, the major pathogen in beef products.

Once ABC News reported on LFTB, the impact on markets was immediate. The following figures show the price impact for 50's and 90's (Chemical Lean) trims. The price of beef trimmings dropped dramatically throughout March, 2012. As a result, one processor of LFTB, Beef Products Inc., idled three factories and another one, AFA Foods, filed for bankruptcy protection. Because of the LFTB

[5]Singh, S.D., Bloomberg: Tyson, Cargill Hurt by 'Pink Slime' Ahead Grilling Season: http://tiny.cc/lxzziw

[6] Ammonia used in many foods, not just "pink slime": http://reut.rs/Hiqd31

[7] CFIA, Fresh Meat Control Programs: http://bit.ly/HeJSmW

issue, several hundred million pounds were taken out of the lean beef supply, which increased the price of 90% CL trimmings.

Kroger (the US' largest grocery chain), stopped offering ground beef containing LFTB. Others, such as Walmart and Hy-Vee Inc, decided to offer both options. At the food service level – MacDonald's and Burger King already stopped serving patties containing LFTB in 2011. Instead of mechanically processing LFTB, Cargill is now hand-trimming meat, which will result in increased labour costs and a higher amount of trimmings.[8]

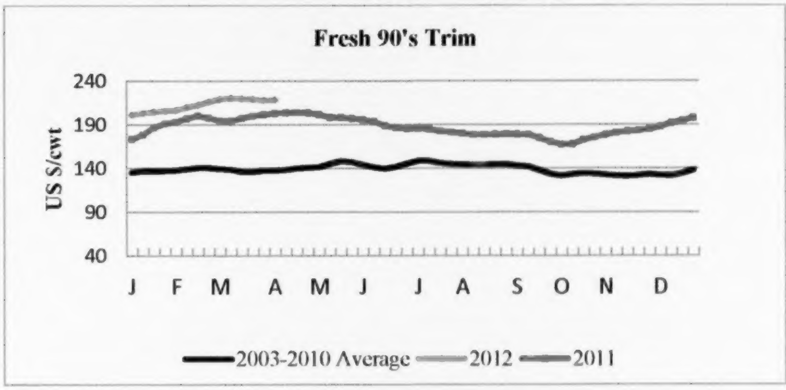
It is likely that the demand for lean processing beef will be strengthened, which in turn means a potential increase in prices for imported beef in the US, if supplies do not pick up. As the USDA considers LFTB as safe (and has so for over 20 years), and considering the public outcry, it is likely that beef products will be required to be labeled if they contain LFTB. Currently, LFTB can comprise up to 15% of ground beef without requiring a label. A bill has already been introduced and different representatives have written to Vilsack (U.S. Secretary of Agriculture) urging USDA to make labeling mandatory.

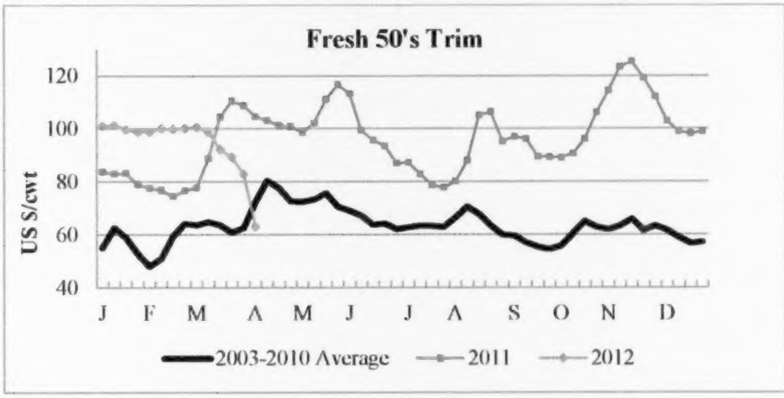
However, the question here is really, how far should we go with label requirements? What if gelatin was listed as an extract of animal bones and hides? The basis for gelatin are cattle bones, cattle hides and pork skins, which are treated with hydrochloric acid before they go through an elaborate process, where gelatin is recovered from collagen by hydrolysis.[8]

While LFTB does not appear to be an issue in Canada, another labeling issue has surfaced, albeit on a much smaller scale. CBC's Marketplace episode on "Lousy Labels" revealed in February 2012 that Maple Leaf's Natural Selection line with" no added preservatives" actually contained nitrates. The packaging did include a reference to cultured celery extract, but to most consumers that statement probably did not reveal that the product contained nitrates. Nitrites are added to foods to stop the growth of Clostridium botulinium, a very dangerous foodborne pathogen. However, there are a number of consumers that are sensitive or allergic to nitrates. This is where labeling becomes a definite issue. Only after the Marketplace episode aired did Maple Leaf change the labeling on their product to "Cultured Celery Extract Contain Naturally Occurring Nitrites".

The implication is that media scrutiny will be increased as consumers demand more information about food and the way it is produced and processed. The industry can be one step ahead by disclosing production processes voluntarily. However, that requires collaboration from CFIA and Health Canada, by allowing the disclosure of ingredients on packaging that are comprehensible by consumers.

[8]Gelatin Manufacturers Institute of America: http://tiny.cc/ouzziw





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Canada-US Regulatory Cooperation: The Agreement, the Stakes, Making it Real

The governments of Canada and the US established the Regulatory Cooperation Council (RCC) in February, 2011. The purpose of the RCC is "to increase regulatory transparency and coordination between the two countries" under the Canada-US Border Action Plan. Under the initial Joint Action Plan of the RCC, agriculture and food is featured prominently, with 10 of the 29 working groups dealing with regulatory issues related to agri-food, ranging from food safety, meat inspection/marketing, livestock diseases, veterinary drugs, and plant/crop protection products.

The intent of the Joint Action Plan is to provide "easier trade flows, lower production costs, streamlined regulatory compliance, reduced testing costs, greater consumer choice, and a better climate for business and economic growth on both sides of the border without compromising the consumer, public health and environmental protections". Importantly, each country will retain its sovereignty over regulations. Rather, alignment will be pursued in developing new regulations and reforming existing ones. Consistent with this, working groups have been established to assist in the efforts, and a secretariat staffed by senior government officials has been established. The initiative has progressed, with a number of Canada/US working groups and consultations on draft plans.

This move has been applauded by farm and food groups in Canada[9], as past evidence has shown significant costs associated with the lack of coordination between Canada and the US in the regulatory area- notably, a lag on behalf of Canada (see, for example, Stiefelmeyer and Schmidt on Canadian feed regulations[10], and Stiefelmeyer *et al* on Canadian food product regulatory approvals[11]). Thus, there is reason for excitement at the prospect of reduced regulatory burden and (effectively) enhanced market access for a trading nation like Canada.

Improved regulatory coordination between Canada and the US stands to have some of the same types of benefits as a new trade agreement would. For example, a Canadian firm might enjoy improved production efficiency if it could manufacture products in a single production run for both Canadian and US markets, without the need to temporarily halt production to change between US and Canadian standards. Conversely, Canadians could obtain access to products currently available in the US, but not available in the same form in Canada due to the existing costs associated with relabeling, repackaging or reformulating the product for the Canadian market. The Canadian agri-food sector has a structural exporting interest, with the US as its largest customer, and it exists in a competitive market for inputs with the US. As such, regulatory cooperation with the US must offer the prospect of significant efficiency gains.

Context for the RCC

At the same time, the initiative must address serious challenges. To see this, it is worth asking why Canadian and US regulatory systems and standards might differ materially do begin with. Is the Canadian understanding of the science that feeds into regulatory decision making so dramatically different than that in the US that a process of this magnitude is required to bring them together? Do other factors explain regulatory differences? Finally, is the Canadian agri-food sector truly prepared for a more coordinated regulatory environment with the US? These factors are material in framing the challenges to the regulatory cooperation initiative, and what expectations we should have from the Regulatory Cooperation Council are discussed, in turn, below.

First, it should be recognized that Canadian regulatory scientists are not unaware of the science applied in other countries' regulatory systems, and there is no reason to believe that they not equally competent to their peers. Perhaps the best evidence of this is the activity and recognition of Canadians at senior levels in international scientific regulatory standards bodies such as Codex Alimentarius[12] and the World Animal Health Organization[13]. Without sounding parochial, Canadian regulatory science should be on par with its peers internationally.

If differences in beliefs, understanding, and awareness of science between Canada and the US cannot account for the need for a large scale agreement to bridge the regulatory gaps, then other factors must be at work. Some of the differences observed can be attributed to the governance and regulatory cultures in the governments of the two countries. These have built up over decades within their respective domestic political environments, with little reason to consider regulatory culture in the other's jurisdiction. Regulators in the two jurisdictions are apt to be well aware of one another's scientific protocols and standards, but the approach which the bureaucracy uses in implementing standards can differ markedly. Moreover, to the extent that regulatory cultures differ, agency organization will tend to deepen its culture, potentially amplifying differences in approach over time.

For example, US regulators of farm and food products could logically be asked to appear before

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[9] For example, the Canadian Pork Council: http://bit.ly/NxaPmn and the Canadian Meat Council: http://bit.ly/RQWUfc

[10] Stiefelmeyer, Kate, and Claudia Schmidt. *Making the Case for Feed Regulatory Reform: A Case Study Approach*, study commissioned by the Animal Health Association of Canada. October, 2010. Available at http://bit.ly/Qyp5tJ

[11] Stiefelmeyer, Kate, Larry Martin, Maria Klimas. *Food Regulatory Systems: Canada's performance in the global marketplace.* Study Commissioned by Food & Consumers Products of Canada. 2008. Available at: http://bit.ly/NnmDLF

[12] Canadian Representatives to Codex Committee: http://bit.ly/MuEEGg

[13] World Organization for Animal Health http://bit.ly/OrDdKd

the following Senate committees (and perhaps others):

- Homeland Security
- Agriculture, Nutrition, and Forestry
- Health, Education, Labor and Pensions
- Small Business and Entrepreneurship

Each of these committees clearly brings a different perspective which rationally leads an agency to use its scientific knowledge and implement in a given way, balancing these considerations. For example, the interest of US Homeland Security is primarily the prospect for food tampering and terrorism; in agriculture it might be the prospect of transmission of animal/plant diseases; in health it might be food safety and nutritional standards; in small business, market access and red-tape burden. These (and other factors) will each impart a character to US regulatory culture. Canadian regulators could easily draw from the same science, but under a different governance model (for example, reporting primarily to a single minister) and apply it differently. In each case, regulatory agency culture acts to deepen these directions over time.

An illustration of the difference in regulatory culture and approach can be illustrated from the recent US court decision regarding the promotion of a brand of pomegranate juice as having a benefit relating to heart disease, prostate cancer, and erectile dysfunction. The US Federal Trade Commission (FTC) challenged this promotion as a false or misleading business practice; a judge recently sided with the FTC[14] on several important counts, which presumably will limit the claims made and the promotion of this product.

In Canada, products such as this come under the regulatory authority of Health Canada, and are subject to scientific efficacy testing and approvals. If a health claim was sought for the product in Canada, its efficacy would be directly evaluated as a matter of process. Thus, in this case one country has regulated a product based on integrity of business practice (truth in advertising), and the other it is regulated based on scientific tests of efficacy. Because of the differences in process, it is entirely possible that this product could obtain regulatory approval in Canada to make health claims but be unable to make the same claims in the US, not based on differences in interpretation of science per se, but rather differences in processes and approach.

Thus, differences in how regulation occurs in Canadian and US governments, and the culture of the regulatory agencies themselves pose important challenges in achieving improved harmonization.

Finally, the agri-food sectors in both countries have grown to understand and work within their respective regulatory frameworks, whatever the imperfections. These have formed barriers that influence production scale and efficiency, and at the same time offer forms of protection to specific firms. If elements of regulation in the two countries become better coordinated, some constraints on scale and efficiency, and some forms of implicit protection, will be lifted. Because of the history, not all firms or industries will be in a position to respond immediately to these changes. Some will lack capacity, infrastructure, or specific technologies to effectively adjust, and decisions will need to be made whether to initiate these investments. In industries where regulation has been more static over time, the broad set of adjustments required to fully adjust may be difficult to anticipate in advance.

As an illustration, in June, 2010 Canada and China announced an agreement on market access to China for tallow and boneless beef under 30 months of age. After concluding technical negotiations, Chinese market access was obtained for boneless beef in May, 2011 and for tallow in February, 2012. The agreement, and subsequent market access, was greeted enthusiastically by the cattle and beef industry. Yet, little actual response appears to have occurred. In 2011, Canadian beef exports to China were valued at $1.7 million, while total Canadian beef exports were $1.3 ***billion***. One industry source suggested that in a tight cattle market, Canadian plants with the approvals to export to China may have little incentive to take the extra efforts to sort ractopamine-free cattle and process beef destined for China[15]. Thus, even if trade barriers are lowered and regulatory standards are better coordinated, if industry lacks

[14] Federal Trade Commission: http://1.usa.gov/KgskGH

[15] Alberta Farmer: http://bit.ly/Phl0gH

capacity or otherwise cannot respond, the prospective benefits of regulatory coordination will not be realized.

Conclusion

The regulatory cooperation agreement with the US, as positive as it is for improved prosperity for the two nations, reflects a policy challenge for the Canadian agri-food sector. To successfully analyze, pilot, propose, argue, eventually approve and then implement coordinated procedures to both improve agri-food trade with the US, as well as assure the necessary border security, requires far more than the high level policy and political direction.

Rather, what will be required is an increased policy capacity to do the needed analytical work, including consultations, matched up with appropriate regulations/guidelines to ensure the desired new procedures will work. It is critical to do so otherwise the scale of the process alone will devour resources simply to maintain some momentum of progress and reporting. To capitalize on the opportunity this process offers, it will be necessary to more clearly analyze what has changed in border movements in the specific product areas, why, and to determine what the real constraining factors are- such as resources, skills, legislation, agency organization, capacity of private or public sector managers and others.

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